

BATH COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Bath Community Schools
Bath, Michigan

October 15, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bath Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Bath Community Schools
Bath, Michigan

October 15, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007, on our consideration of Bath Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi - xi and 26, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath Community Schools' basic financial statements. The additional information on pages 28 to 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costurison & Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Bath Community Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

For the first time in six years, the District's general fund financial situation did not improve during fiscal year 2007. However, the financial performance was approximately \$82,000 stronger than was budgeted.

As expected, athletic fund had greater expenses for 2007 than revenue. This amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The Food Services Fund had greater revenues for 2007 than expenditures for an increase of \$7,595.

During the 2006-2007 school year, Bath Community Schools spent almost \$3 million on capital improvements through-out the District. These expenditures were predominantly funded in the 2004 Capital Projects Fund. Only \$214,000 remains unspent at June 30, 2007 from the 2004 bond issue.

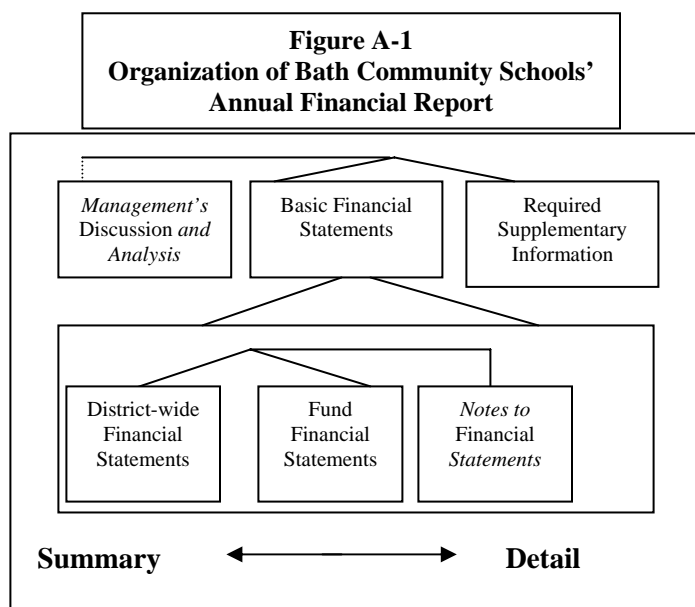
Total general fund revenues and expenses were approximately \$7.7 million dollars with total general fund expenses exceeding revenues by \$31,371. The District continues to participate in short-term cash flow loans, borrowing \$1,975,000 against anticipated state aid payments.

Student enrollment showed an increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2			
Major Features of District-wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Bath's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were higher by \$264,604, on June 30, 2007 than the year before. The net asset position increased to \$924,698.

Table A-3 Bath Community Schools Net Assets		
	2007	2006
Current assets	\$ 5,133,793	\$ 8,426,705
Capital assets	23,300,665	21,062,823
Total assets	28,434,458	29,489,528
Long-term debt outstanding	23,786,068	24,511,515
Other liabilities	3,723,692	4,317,919
Total liabilities	27,509,760	28,829,434
Net assets:		
Invested in capital assets, net of related debt	(85,628)	(1,052,315)
Restricted	502,627	810,499
Unrestricted	507,699	901,910
Total net assets	\$ 924,698	\$ 660,094

Table A-4 Changes in Bath Community Schools' Net Assets		
	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 385,094	\$ 373,542
Federal and state categorical grants	548,439	456,027
General revenues:		
Property taxes	2,879,780	2,497,161
Investment	239,002	442,872
State aid - unrestricted	5,772,574	5,708,033
RESA	242,166	256,488
Other	54,831	33,096
Total revenues	10,121,886	9,767,219
Expenses:		
Instruction	4,591,926	4,436,452
Support services	2,707,008	2,455,575
Outgoing transfers and other	118,993	122,322
Community service	86,184	108,002
Food services	301,343	280,278
Athletics	226,352	208,553
Interest on long-term debt	1,031,568	1,128,107
Unallocated depreciation	793,908	382,385
Total expenses	9,857,282	9,121,674
Change in net assets	\$ 264,604	\$ 645,545

District Governmental Activities

The District's good financial shape has come about through a number of areas.

- Proposal A, which established the student foundation grant concept, has increased the amount per student from \$5,075 per student in 1995 to \$7,085 per student in 2007.
- Bath Community Schools shares the cost of health insurance premium increases with its employees, as well as offering more affordable options with higher deductibles and prescription co-pays. This practice has resulted in savings to the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The good financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$2.494 million compared to \$5.234 million in 2006. The fund balance decreased by \$2.74 million for the year, primarily due to expending bond proceeds for building improvements of \$3 million.

General Fund and Budget Highlights

During the 2007 fiscal year, the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. All programs and staff were maintained.

The final amended budget was to have revenue be \$113,016 lower than expenses. Final results showed that revenues came in slightly higher than were anticipated and expenses came in slightly lower than anticipated. The net result was a decrease in general fund balance of \$31,371, decreasing the general fund balance to \$1,131,536 from \$1,162,907 at the end of fiscal year 2006.

General fund expenditures came within 0.8% of the budgeted total. Inventory controls allowed the District to reduce expenditures for summer cleaning and preparation for fall school opening. Local revenues came in higher than expected, and bus repair came in lower than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Bath Community Schools' Capital Assets				
	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 114,130		\$ 114,130	\$ 114,130
Construction in progress				11,852,252
Buildings and improvements	28,538,946	6,932,950	21,605,996	8,417,547
Machinery and equipment	3,674,008	2,517,156	1,156,852	352,234
Transportation equipment	602,482	406,100	196,382	170,671
Total	<u>\$ 32,929,566</u>	<u>\$ 9,856,206</u>	<u>\$ 23,073,360</u>	<u>\$ 20,906,834</u>

LONG-TERM DEBT

At year-end the District had \$24,711,623 long-term debt outstanding. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$760,757.

During the year, the District began repayment to the School Bond Loan Fund in the amount of \$149,265.

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

FACTORS BEARING ON THE DISTRICT'S FUTURE

- While the 2007-2008 foundation allowance has not been finalized by the State of Michigan, the foundation allowance represents 82 percent of total District revenue. The state is suggesting a 1% increase in the per pupil foundation allowance but a weak state economy could require pro-rations in state aid.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Students count is projected to be steady over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Bath Community Schools, 6175 E. Clark Road, Bath, Michigan 48808.

**BATH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 250
Investments	3,870,957
Receivables:	
Other governmental units	1,034,355
Inventories	10,092
Prepaid expenditures	3,775
Restricted investments - 2004 capital projects	214,364
TOTAL CURRENT ASSETS	5,133,793
NONCURRENT ASSETS:	
Capital assets	32,929,566
Less accumulated depreciation	(9,856,206)
Deferred charges net of amortization	227,305
TOTAL NONCURRENT ASSETS	23,300,665
TOTAL ASSETS	\$ 28,434,458
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 120,833
Accrued expenses	221,775
Accrued salaries and related items	464,129
Deferred revenue	16,400
Note payable	1,975,000
Current portion of long-term obligations	735,000
Current portion of compensated absences	190,555
TOTAL CURRENT LIABILITIES	3,723,692
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	23,662,403
Noncurrent compensated absences	123,665
TOTAL NONCURRENT LIABILITIES	23,786,068
TOTAL LIABILITIES	27,509,760
NET ASSETS:	
Invested in capital assets, net of related debt	(85,628)
Restricted - capital projects (sinking fund)	502,627
Unrestricted	507,699
TOTAL NET ASSETS	924,698
TOTAL LIABILITIES AND NET ASSETS	\$ 28,434,458

**BATH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 4,591,926	\$	\$ 359,953	\$ (4,231,973)
Support services	2,707,008		58,259	(2,648,749)
Outgoing transfers and other transactions	118,993			(118,993)
Community services	86,184	134,154		47,970
Food services	301,343	182,877	130,227	11,761
Athletics	226,352	68,063		(158,289)
Interest on long-term debt	1,031,568			(1,031,568)
Unallocated depreciation	793,908			(793,908)
Total governmental activities	<u>\$ 9,857,282</u>	<u>\$ 385,094</u>	<u>\$ 548,439</u>	<u>(8,923,749)</u>
General revenues:				
Property taxes, levied for general purposes				1,021,698
Property taxes, levied for debt service				1,653,492
Property taxes, levied for sinking fund				204,590
Investment earnings				239,002
State sources				5,772,574
CCRESA transfers in				242,166
Other				54,831
Total general revenues				<u>9,188,353</u>
CHANGE IN NET ASSETS				264,604
NET ASSETS , beginning of year				<u>660,094</u>
NET ASSETS , end of year				<u>\$ 924,698</u>

BATH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General fund	2004 Capital projects fund	Capital projects sinking fund	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash	\$ 250	\$	\$	\$	\$ 250
Investments	2,684,880		507,365	678,712	3,870,957
Receivables:					
Other governmental units	1,034,355				1,034,355
Due from other funds	39,584			396	39,980
Inventories	800			9,292	10,092
Prepaid expenditures	3,775				3,775
Restricted investments		214,364			214,364
TOTAL ASSETS	\$ 3,763,644	\$ 214,364	\$ 507,365	\$ 688,400	\$ 5,173,773
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 117,378	\$	\$ 3,455	\$	\$ 120,833
Accrued expenses	62,751				62,751
Accrued salaries and related items	464,129				464,129
Deferred revenue	12,850			3,550	16,400
Due to other funds			1,283	38,697	39,980
Note payable	1,975,000				1,975,000
TOTAL LIABILITIES	2,632,108		4,738	42,247	2,679,093

	General fund	2004 Capital projects fund	Capital projects sinking fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:					
Reserved for debt service	\$	\$	\$	\$ 514,742	\$ 514,742
Reserved for prepaid expenditures	3,775				3,775
Reserved for inventory	800			9,292	10,092
Reserved for capital projects		214,364	502,627	-	716,991
Designated for subsequent year's expenditures	471,511				471,511
Undesignated	655,450			122,119	777,569
TOTAL FUND BALANCES	1,131,536	214,364	502,627	646,153	2,494,680
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,763,644	\$ 214,364	\$ 507,365	\$ 688,400	\$ 5,173,773
Total governmental fund balance					\$ 2,494,680

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is	\$ 32,929,566	
Accumulated depreciation is	(9,856,206)	23,073,360
The value of unamortized bond issuance costs	250,382	
Accumulated amortization	(23,077)	227,305

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(24,397,403)
Compensated absences	(314,220)

Accrued interest is not included as a liability in government funds, it is recorded when paid

Net assets of governmental activities	\$ 924,698
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BATH COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General fund	2004 Capital projects fund	Capital projects sinking fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 1,021,698	\$	\$ 204,590	\$ 1,653,492	\$ 2,879,780
Community services and tuition	134,154				134,154
Investment income	120,374	55,912	18,885	43,831	239,002
Other	54,212			251,559	305,771
Total local sources	1,330,438	55,912	223,475	1,948,882	3,558,707
State sources	6,098,025			14,005	6,112,030
Federal sources	92,761			116,222	208,983
Incoming transfers and other transactions	242,166				242,166
Total revenues	7,763,390	55,912	223,475	2,079,109	10,121,886
EXPENDITURES:					
Current:					
Instruction	4,655,327				4,655,327
Support services	2,781,295				2,781,295
Athletics				226,352	226,352
Community services	86,184				86,184
Food service				301,343	301,343
EXPENDITURES (Concluded):					
Current (Concluded):					
Outgoing transfers and other transactions	\$ 118,993	\$		\$	\$ 118,993
Capital outlay		2,821,169	51,192		2,872,361
Debt service:					
Principal retirement				710,000	710,000
Interest and fiscal charges				876,825	876,825
Bond issuance cost				84,113	84,113
Payment to refunded bond escrow account				83,802	83,802
Total expenditures	7,641,799	2,821,169	51,192	2,282,435	12,796,595
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	121,591	(2,765,257)	172,283	(203,326)	(2,674,709)
OTHER FINANCING SOURCES (USES):					
School bond loan fund				(149,265)	(149,265)
Proceeds from bond issuance				8,025,000	8,025,000
Discount from bond issuance				(60,562)	(60,562)
Payment to refunded bond escrow account				(7,880,325)	(7,880,325)
Operating transfers in	10,000			162,962	172,962
Operating transfers out	(162,962)			(10,000)	(172,962)
Total other financing sources (uses)	(152,962)			87,810	(65,152)
NET CHANGE IN FUND BALANCES	(31,371)	(2,765,257)	172,283	(115,516)	(2,739,861)
FUND BALANCES:					
Beginning of year	1,162,907	2,979,621	330,344	761,669	5,234,541
End of year	\$ 1,131,536	\$ 214,364	\$ 502,627	\$ 646,153	\$ 2,494,680

**BATH COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds **\$ (2,739,861)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(793,908)
Capital outlay	2,960,435

Accrued interest on bonds is recorded in the statement of activities

when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	164,890
Accrued interest payable, end of the year	(159,024)

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Payments on school bond loan fund	149,265
Proceeds from issuance of debt	(8,025,000)
Payments on bonds	8,200,000
Discount on debt	60,562
Bond issuance costs	84,113
Deferred amount on bond refunding	474,127
Amortization on bond issuance costs	(12,798)
Amortization of deferred loss on refunding	(16,163)
Amortized premium	17,239
Amortized discount	(2,065)
Long-term interest on school bond loan fund (accrued)	(160,609)

Compensated absences are reported on the accrual method in the statement of activities,

and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and severance benefits, beginning of the year	377,621
Accrued compensated absences and severance benefits, end of the year	(314,220)

Change in net assets of governmental activities	\$ 264,604
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BATH COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007

	Agency funds
	<u> </u>
ASSETS	
Investments	\$ 175,146
	<u> </u>
LIABILITIES	
Due to general fund	\$ 753
Due to student groups	174,393
	<u> </u>
	<u>\$ 175,146</u>

BATH COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Bath Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Bath Community Schools (the "District") is governed by the Bath Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 2004 *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The *capital projects sinking fund* accounts for the receipt of the sinking fund millage proceeds and the acquisition of fixed assets or construction of capital projects. The District has complied with applicable provisions of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95 relating to sinking funds.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The following is a summary of the revenue and expenditures in the Bath Community Schools capital projects from the inception of the fund through the current fiscal year:

Revenues and bond proceeds	<u>\$ 15,343,954</u>
Expenditures and transfers	<u>\$ 15,129,590</u>

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds. The 1995 debt service fund has a deficit balance of \$797.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when appropriation is received.

For the year ended June 30, 2007, approximately \$118,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - non-homestead	18.0000
Capital projects - sinking fund - all properties	0.9922
Debt service funds - all properties	8.0000

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

6. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net asset reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund, and school bond revolving fund principal proceeds of \$2,380,220 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,024,051 has been included in the calculation of unrestricted net. Assets.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2007, the District had the following investments.

Investment Type	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$1,476,269	0.0027	AAAm	34.65%
MILAF External Investment pool - MIMAX	2,784,448	0.0027	AAAm	65.35%
Total fair value	<u>\$4,260,717</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
1 day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the District had no deposits.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are previously reported in Note 3:

Petty cash	\$ 250
Investments	4,260,467
	<u>\$ 4,260,717</u>

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The above amounts are reported in the financial statements as follows:

Cash - district-wide	\$ 250
Investments - agency fund	175,146
Investments - district-wide	3,870,957
Restricted investments - capital projects	214,364
	<u>\$ 4,260,717</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 114,130	\$	\$	\$ 114,130
Construction in progress	11,852,252		11,852,252	
Total capital assets, not being depreciated	11,966,382		11,852,252	114,130
Capital assets, being depreciated:				
Land improvements	710,094	2,331,124		3,041,218
Buildings and additions	14,122,119	11,375,609		25,497,728
Machinery and equipment	2,777,950	1,036,058	140,000	3,674,008
Transportation equipment	579,067	69,895	46,480	602,482
Total capital assets, being depreciated	18,189,230	14,812,686	186,480	32,815,436
Accumulated depreciation:				
Land improvements	272,793	127,432		400,225
Buildings and additions	6,141,873	390,852		6,532,725
Machinery and equipment	2,425,716	231,440	140,000	2,517,156
Transportation equipment	408,396	44,184	46,480	406,100
Total accumulated depreciation	9,248,778	793,908	186,480	9,856,206
Net capital assets being depreciated	8,940,452	14,018,778		22,959,230
Net governmental capital assets	<u>\$ 20,906,834</u>	<u>\$ 14,018,778</u>	<u>\$ 11,852,252</u>	<u>\$ 23,073,360</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$793,908. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2007, the District has a note payable outstanding of \$1,975,000. The note has an interest rate of 4.75% and matures August 18, 2007. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
\$ 1,775,000	\$ 1,975,000	\$ 1,775,000	\$ 1,975,000

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District:

	General obligation bonds	School bond loan fund	Limited obligation Durant bonds	Sub-total bonded and notes	Compensated absences	Total
Balance, July 1, 2006	\$ 21,640,573	\$ 3,392,927	\$ 61,259	\$ 25,094,759	\$ 377,621	\$ 25,472,380
Additions	7,490,311	160,609		7,650,920		7,650,920
Deletions	8,199,011	149,265		8,348,276	63,401	8,411,677
Balance, June 30, 2007	20,931,873	3,404,271	61,259	24,397,403	314,220	24,711,623
Less current portion	740,184			740,184	190,555	930,739
Total due after one year	\$ 20,191,689	\$ 3,404,271	\$ 61,259	\$ 23,657,219	\$ 123,665	\$ 23,780,884

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2007 is comprised of the following:

1993 serial bonds due in annual installments of \$80,000 to \$100,000 through May 1, 2010, plus interest from 4.2% to 5.5%.	\$ 280,000
1998 refunding bonds with annual installments of \$330,000 through May 1, 2025, plus interest from 3.4% to 4.5%.	5,940,000
Limited obligation (Durant) bonds with annual installments of \$5,774 to \$36,146 through May 15, 2013, plus interest at 4.76%. Certain State Aid payments have been pledged as security.	61,259
2004 serial bonds due in annual installments of \$325,000 to \$750,000 through May 1, 2021, with interest from 2.75% to 5.00%.	6,950,000
2006 serial bonds due in annual installments of \$40,000 to \$825,000 through May 1, 2029, with interest from 4.00% to 4.50%.	8,025,000
Unamortized premium on bonds.	253,334
Unamortized discount on bonds.	(58,497)
Unamortized losses on bond refunding	<u>(457,964)</u>
Total bonded debt	20,993,132
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest.	3,404,271
Obligation under contract from compensated absences and retirement incentives.	<u>314,220</u>
Total long-term debt	<u><u>\$ 24,711,623</u></u>

Interest expense (all funds) for the year ended June 30, 2007 was \$1,031,568.

An amount of \$514,742 is available in the debt service funds to service the general obligation debt.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2007, including interest of \$10,699,037, are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 735,000	\$ 890,516	\$ 1,625,516
2009	785,774	865,736	1,651,510
2010	811,048	836,261	1,647,309
2011	841,337	805,858	1,647,195
2012	901,146	786,958	1,688,104
2013 - 2017	4,811,954	3,332,210	8,144,164
2018 - 2022	5,620,000	2,146,765	7,766,765
2023 - 2027	5,100,000	932,020	6,032,020
2028 - 2029	1,650,000	102,713	1,752,713
Total	21,256,259	10,699,037	31,955,296
Unamortized premium	253,334		253,334
Unamortized discount	(58,497)		(58,497)
Deferred amount on bond refunding	(457,964)		(457,964)
	20,993,132	10,699,037	31,692,169
Due to school bond loan fund	3,404,271		3,404,271
Accumulated compensated absences	314,220		314,220
	<u>\$ 24,711,623</u>	<u>\$ 10,699,037</u>	<u>\$ 35,410,660</u>

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

Borrowing from the State of Michigan - The school bond loans payable represent notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 4.6845% - 5.0486% for the School Revolving Fund notes and 4.5000% - 4.875% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 8.0 mills. The school district is required to levy 8.0 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

On September 27, 2006, Bath Community Schools issued general obligation bonds of \$8,025,000 with an interest rate ranging from 4.00% to 4.50% to advance refund bonds with an interest rate ranging from 4.90% to 5.68%. The bonds mature on May 1, 2029. The general obligation bonds were issued at a discount after paying issuance costs of \$84,113, the net proceeds were \$7,964,438. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in a irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by approximately \$475,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$331,000.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$7,490,000 of bonds outstanding are considered defeased.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
General	\$ 39,584	Special revenue	\$ 28,004
Debt service	396	Debt service	10,693
		Capital projects - sinking	1,283
	<u>\$ 39,980</u>		<u>\$ 39,980</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in accounting systems, and (3) payments between funds are made.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 were 16.34% of payroll through September 30, 2006 and 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$770,000, \$690,000 and \$630,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. In the past three years, the District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**BATH COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - CONTINGENCIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 11 - TRANSFERS

The general fund transferred \$162,962 to the athletic fund during the current fiscal year to balance the athletic fund budget and the food service fund transferred \$10,000 to the general fund for indirect costs.

REQUIRED SUPPLEMENTARY INFORMATION

**BATH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 1,067,710	\$ 1,307,928	\$ 1,330,438	\$ 22,510
State sources	6,240,547	6,098,121	6,098,025	(96)
Federal sources	54,317	93,761	92,761	(1,000)
Incoming transfers and other transactions	236,188	242,166	242,166	
Total revenues	7,598,762	7,741,976	7,763,390	21,414
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,929,062	3,989,479	3,939,960	49,519
Added needs	833,854	713,114	715,367	(2,253)
Total instruction	4,762,916	4,702,593	4,655,327	47,266
Support services:				
Pupil	142,996	141,189	140,685	504
Instructional staff	227,227	215,516	211,673	3,843
General administration	318,214	319,891	314,675	5,216
School administration	482,904	458,752	455,471	3,281
Business	180,831	231,023	227,215	3,808
Operations/maintenance	845,879	892,240	893,837	(1,597)
Transportation	317,155	355,645	345,252	10,393
Other	197,657	191,982	192,487	(505)
Total support services	2,712,863	2,806,238	2,781,295	24,943
EXPENDITURES (Concluded):				
Current (Concluded):				
Community services	\$ 108,028	\$ 87,465	\$ 86,184	\$ 1,281
Outgoing transfers and other transactions	152,750	105,734	118,993	(13,259)
Total expenditures	7,736,557	7,702,030	7,641,799	60,231
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(137,795)	39,946	121,591	81,645
OTHER FINANCING SOURCES (USES):				
Operating transfer in		10,000	10,000	
Operating transfers out	(157,007)	(162,962)	(162,962)	
Total other financing sources (uses)	(157,007)	(152,962)	(152,962)	
NET CHANGE IN FUND BALANCE	<u>\$ (294,802)</u>	<u>\$ (113,016)</u>	<u>\$ (31,371)</u>	<u>\$ 81,645</u>

ADDITIONAL INFORMATION

**BATH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2007**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Investments	\$ 153,673	\$ 525,039	\$ 678,712
Due from other funds		396	396
Inventories	9,292		9,292
TOTAL ASSETS	<u><u>\$ 162,965</u></u>	<u><u>\$ 525,435</u></u>	<u><u>\$ 688,400</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ 3,550	\$	\$ 3,550
Due to other funds	28,004	10,693	38,697
TOTAL LIABILITIES	<u>31,554</u>	<u>10,693</u>	<u>42,247</u>
FUND BALANCES:			
Reserved for debt service		514,742	514,742
Reserved for inventories	9,292		9,292
Undesignated	122,119		122,119
TOTAL FUND BALANCES	<u>131,411</u>	<u>514,742</u>	<u>646,153</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 162,965</u></u>	<u><u>\$ 525,435</u></u>	<u><u>\$ 688,400</u></u>

BATH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
REVENUES:			
Local sources:			
Property taxes	\$	\$1,653,492	\$ 1,653,492
Investment income	7,734	36,097	43,831
Other	251,559		251,559
Total local sources	259,293	1,689,589	1,948,882
State sources	14,005		14,005
Federal sources	116,222		116,222
Total revenues	389,520	1,689,589	2,079,109
EXPENDITURES:			
Current :			
Athletics	226,352		226,352
Food service	301,343		301,343
Debt service:			
Principal retirement		710,000	710,000
Interest and fiscal charges		876,825	876,825
Bond issuance costs		84,113	84,113
Payment to refunded bond escrow account		83,802	83,802
Total expenditures	527,695	1,754,740	2,282,435
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(138,175)	(65,151)	(203,326)
OTHER FINANCING SOURCES (USES):			
School bond loan fund		(149,265)	(149,265)
Proceeds from bond refunding		8,025,000	8,025,000
Bond discount		(60,562)	(60,562)
Payment to refunded bond escrow account		(7,880,325)	(7,880,325)
Operating transfers in	162,962		162,962
Operating transfers out	(10,000)		(10,000)
Total other financing sources (uses)	152,962	(65,152)	87,810
NET CHANGE IN FUND BALANCES	14,787	(130,303)	(115,516)
FUND BALANCES:			
Beginning of year	116,624	645,045	761,669
End of year	\$ 131,411	\$ 514,742	\$ 646,153

**BATH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)**

	School lunch fund	Athletics fund	Totals	
ASSETS			2007	2006
Investments	\$ 88,697	\$ 64,976	\$ 153,673	\$ 141,999
Inventory	9,292		9,292	7,050
Total assets	<u>\$ 97,989</u>	<u>\$ 64,976</u>	<u>\$ 162,965</u>	<u>\$ 149,049</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue	\$ 3,550	\$	\$ 3,550	\$ 4,599
Due to other funds	10,291	17,713	28,004	27,826
Total liabilities	<u>13,841</u>	<u>17,713</u>	<u>31,554</u>	<u>32,425</u>
Fund balances:				
Reserved for inventories	9,292		9,292	7,050
Undesignated	74,856	47,263	122,119	109,574
Total fund balances	<u>84,148</u>	<u>47,263</u>	<u>131,411</u>	<u>116,624</u>
Total liabilities and fund balances	<u>\$ 97,989</u>	<u>\$ 64,976</u>	<u>\$ 162,965</u>	<u>\$ 149,049</u>

**BATH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)**

	School lunch fund	Athletics fund	Totals	
			2007	2006
REVENUES:				
Food service	\$ 182,877	\$	\$ 182,877	\$ 164,243
Athletics		68,063	68,063	64,140
Interest	5,215	2,519	7,734	6,563
State sources	14,005		14,005	14,394
Federal sources	116,222		116,222	107,899
Other	619		619	439
Total revenues	<u>318,938</u>	<u>70,582</u>	<u>389,520</u>	<u>357,678</u>
EXPENDITURES:				
Salaries and wages	110,101	143,499	253,600	231,341
Employee benefits	32,586	34,584	67,170	59,374
Supplies and other expenses	<u>158,656</u>	<u>48,269</u>	<u>206,925</u>	<u>198,116</u>
Total expenditures	<u>301,343</u>	<u>226,352</u>	<u>527,695</u>	<u>488,831</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>17,595</u>	<u>(155,770)</u>	<u>(138,175)</u>	<u>(131,153)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer in from general fund		162,962	162,962	146,920
Operating transfer to general fund	<u>(10,000)</u>		<u>(10,000)</u>	<u>(30,000)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>162,962</u>	<u>152,962</u>	<u>116,920</u>
NET CHANGE IN FUND BALANCES	<u>7,595</u>	<u>7,192</u>	<u>14,787</u>	<u>(14,233)</u>
FUND BALANCES:				
Beginning of year	<u>76,553</u>	<u>40,071</u>	<u>116,624</u>	<u>130,857</u>
End of year	<u>\$ 84,148</u>	<u>\$ 47,263</u>	<u>\$ 131,411</u>	<u>\$ 116,624</u>

**BATH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)**

	Debt service funds							Totals	
ASSETS	<u>1973</u>	<u>1991</u>	<u>1993</u>	<u>1995</u>	<u>1998</u>	<u>2004</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Investments	\$ 656	\$ 30,471	\$ 12,558	\$ 4,651	\$ 140,750	\$ 165,155	\$ 170,798	\$ 525,039	\$ 645,045
Due from other funds						396		396	
Total assets	<u>\$ 656</u>	<u>\$ 30,471</u>	<u>\$ 12,558</u>	<u>\$ 4,651</u>	<u>\$ 140,750</u>	<u>\$ 165,551</u>	<u>\$ 170,798</u>	<u>\$ 525,435</u>	<u>\$ 645,045</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Due to other funds	\$	\$ 1,460	\$ 377	\$ 5,448	\$ 3,377	\$	\$ 31	\$ 10,693	\$
Fund balances, reserved for debt service	<u>656</u>	<u>29,011</u>	<u>12,181</u>	<u>(797)</u>	<u>137,373</u>	<u>165,551</u>	<u>170,767</u>	<u>514,742</u>	<u>645,045</u>
Total liabilities and fund balances	<u>\$ 656</u>	<u>\$ 30,471</u>	<u>\$ 12,558</u>	<u>\$ 4,651</u>	<u>\$ 140,750</u>	<u>\$ 165,551</u>	<u>\$ 170,798</u>	<u>\$ 525,435</u>	<u>\$ 645,045</u>

BATH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Debt service funds						Totals	
	1973	1991	1993	1995	1998	2004	2006	2007
REVENUES:								
Local sources:								
Property taxes	\$	\$ (1,460)	\$ 104,146	\$	\$ 599,496	\$ 590,475	\$ 360,835	\$ 1,653,492
Interest on investments		2,038	1,403	5,767	10,709	11,905	4,275	36,097
Total local sources		578	105,549	5,767	610,205	602,380	365,110	1,689,589
State sources								7,285
Total revenues		578	105,549	5,767	610,205	602,380	365,110	1,689,589
EXPENDITURES:								
Principal retirement			80,000		330,000	300,000		710,000
Interest and fiscal charges			19,621	5,448	271,271	386,142	194,343	876,825
Bond issuance costs							84,113	84,113
Payment to refunded bond escrow account						83,802		83,802
Total expenditures			99,621	5,448	601,271	769,944	278,456	1,754,740
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		578	5,928	319	8,934	(167,564)	86,654	(291,018)
OTHER FINANCING SOURCES (USES):								
School bond loan fund				(115,499)	(33,766)			(149,265)
Proceeds from bond refunding							8,025,000	8,025,000
Bond discount							(60,562)	(60,562)
Payment to refunded bond escrow account							(7,880,325)	(7,880,325)
Total other financing sources (uses)				(115,499)	(33,766)		84,113	(65,152)
NET CHANGE IN FUND BALANCES		578	5,928	(115,180)	(24,832)	(167,564)	170,767	(130,303)
FUND BALANCES, beginning of year	656	28,433	6,253	114,383	162,205	333,115		645,045
FUND BALANCES, end of year	\$ 656	\$ 29,011	\$ 12,181	\$ (797)	\$ 137,373	\$ 165,551	\$ 170,767	\$ 514,742

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2007**

	Balance				Balance
	July 1, 2006	Additions	Deletions		July 1, 2007
Elementary Fund:					
Fund	\$ 8,867	\$ 33,749	\$ 29,035	\$	13,581
Library	2,081	8,982	8,145		2,918
4th Grade Swimming	(1,275)	1,275			
Picture Fund	791	4,732	4,800		723
Music	3	1,337	1,298		42
School Health Team	665	3,172	2,242		1,595
Pop Fund	42	349	89		302
Middle School Fund:					
Band	784	8,854	7,651		1,987
Library	270	1,032	1,032		270
Jr. Honor Society	5,234	739	898		5,075
Miscellaneous	7,710	17,606	17,836		7,480
Student Council	6,154	8,421	8,604		5,971
Yearbook	881	3,293	3,402		772
Drama	1,889	500			2,389
7th Grade	3,488	26,548	10,137		19,899
Athletic Fundraising		2,157	1,896		261
Pop Fund	1,328	182	815		695
High School Fund:					
Art	156	644	661		139
Advanced Physical Education	188	120	150		158
International Club	246		178		68
Band	(40)	40			

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2007**

	Balance				Balance
	July 1, 2006	Additions	Deletions		July 1, 2007
High School Fund (Continued):					
Journalism	\$ 1,810	\$ 3,180	\$ 3,842	\$	1,148
Boys Basketball	2		2		
Dance	110		110		
Class of 1995	50		50		
Class of 2005	1,565		775		790
Drama Club	645	700	85		1,260
Pop Fund	87	317	448		(44)
Home Economics	14		14		
National Honor Society	313	454	256		511
Quiz Bowl	273	349	250		372
Slaam	318	547	290		575
Gay Straight Alliance	33	50			83
Spanish	6				6
Student Council	1,769	3,392	3,794		1,367
Varsity Club	604		604		
Yearbook	9,971	25,055	24,559		10,467
Miscellaneous	7,741	7,167	4,851		10,057
Class of 2002	200				200
Class of 1993	290		229		61
Class of 1996	228				228
Class of 1997	134				134
Academic Boosters	692				692
Class of 1999	589				589
Class of 2006	405				405
Class of 2003	299	1			300
Class of 2004	520				520

**BATH COMMUNITY SCHOOLS
AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2007**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>July 1, 2007</u>
High School Fund (Concluded):				
Cross Country	\$ 593	\$ 202	\$ 574	\$ 221
High School Band Trip	526		526	
HS Athletic Director Discretionary Fund	818	1,704	838	1,684
Biology	393	29	452	(30)
Class of 2007	1,435	16,566	17,871	130
Class of 2008	1,088	4,996	2,753	3,331
Class of 2009	1,463	505	1,397	571
Class of 2010		786	84	702
 Harte Memorial	 3,382		 300	 3,082
Scholarship Fund	49		49	
Michael Bargy Memorial	(33)	33		
J. Peltier Memorial Library Fund	210		210	
 Benevolent Fund	 18	 1,425	 1,402	 41
Liz Schaibly Memorial	20		20	
J. Broviac Memorial	19,556	2,974	2,256	20,274
VFW Scholarship	1,900		300	1,600
 VFW Auxiliary Scholarship	 500		 500	
Spirit of Bath playground project	140	9,606		9,746
Beehive Fundraising	2,900	7,573	9,063	1,410
Summer Basketball Camp	77		77	
 Comm Ed Trips	 270		 270	
Bath Education Foundation	118	32	150	
Technology	45		45	
Retirement	(456)			(456)
 Environmental Club	 209	 188	 367	 30
Senior Class Sign Account	2,370	1,000		3,370
Board of Education		2,340	893	1,447
C.M.A.C. Administration		7,426	4,804	2,622
Dr. Therese Peterson Fund		30,572		30,572
	<u>\$ 105,721</u>	<u>\$ 252,901</u>	<u>\$ 184,229</u>	<u>\$ 174,393</u>

**BATH COMMUNITY SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
REVENUES:		
Local sources:		
Property taxes	\$ 1,019,171	\$ 829,133
Delinquent taxes and interest	2,527	3,924
Community education	134,154	145,159
Interest	120,374	85,304
Other	<u>54,212</u>	<u>31,657</u>
Total local sources	<u>1,330,438</u>	<u>1,095,177</u>
State sources:		
Foundation	5,965,265	5,848,632
Categorical	110,667	106,158
Durant settlement	10,375	10,375
Environmental projects		20,000
Middle school math	<u>11,718</u>	
Total state sources	<u>6,098,025</u>	<u>5,985,165</u>
Federal sources:		
Title I - regular	59,282	48,025
Title II	33,479	896
Other		<u>396</u>
Total federal sources	<u>92,761</u>	<u>49,317</u>
Other sources:		
Incoming transfers and other transactions	<u>242,166</u>	<u>256,488</u>
Total revenues	<u><u>\$ 7,763,390</u></u>	<u><u>\$ 7,386,147</u></u>

BATH COMMUNITY SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2007
With comparative totals for the year ended June 30, 2006

	Salaries	Employee benefits	Purchased services	Supplies and materials	Other expenses	Capital outlay	Totals	
							2007	2006
Instruction:								
Elementary	\$ 1,087,490	\$ 549,256	\$ 13,421	\$ 24,454	\$ 190	\$	\$ 1,674,811	\$ 1,650,340
Middle school	631,096	314,746	6,783	8,607	510		961,742	949,478
High school	760,567	422,009	15,746	13,476	375		1,212,173	1,106,593
Preschool	16,181	12,000	726	3,101			32,008	28,367
Special education	350,032	173,167	1,030	2,708	2,552		529,489	511,709
Summer school			25,266	33,960			59,226	13,753
Compensatory education	124,447	60,231	1,200				185,878	180,148
Total instruction	2,969,813	1,531,409	64,172	86,306	3,627		4,655,327	4,440,388
Support services:								
Guidance	80,199	56,511	1,100	933			138,743	132,805
Health service			733	1,209			1,942	852
Instructional staff		31					31	737
Improvement of instruction	600	149		620	136		1,505	2,480
Library	135,351	61,864		7,126	5,186		209,527	204,033
Audio visual				610			610	1,110
Board of education			40,410	562	5,457		46,429	43,223
Executive administration	157,635	91,159	15,406	1,259	2,371	416	268,246	237,405
Office of principal	240,729	94,356	110,606	3,270	1,582	4,928	455,471	426,705
Fiscal services	41,864	12,633	20,685	2,000	620		77,802	69,204
Support services (Concluded):								
Other business services	\$	\$	\$ 44,185	\$	\$ 105,228	\$	\$ 149,413	\$ 121,668
Operation and maintenance	276,087	197,001	386,910	28,454	183	5,202	893,837	775,801
Pupil transportation services	144,121	51,494	29,575	48,562	1,605	69,895	345,252	305,443
Information services			4,183				4,183	3,020
Staff/personnel services			7,535				7,535	14,084
Data personnel services	70,943	41,926	16,402	8,376		43,122	180,769	183,096
Total support services	1,147,529	607,124	677,730	102,981	122,368	123,563	2,781,295	2,521,666
Community services	63,445	15,048	3,160	4,531			86,184	108,002
Other tuition			118,993				118,993	122,322
Total expenditures	4,180,787	2,153,581	864,055	193,818	125,995	123,563	7,641,799	7,192,378
Other financing uses:								
Athletic					162,962		162,962	146,920
Total expenditures and other financing uses	\$ 4,180,787	\$ 2,153,581	\$ 864,055	\$ 193,818	\$ 288,957	\$ 123,563	\$ 7,804,761	\$ 7,339,298

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$945,000 Bonds issued August 10, 1993

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 80,000	\$ 7,660	\$ 7,660	2008	\$ 95,320
100,000	5,500	5,500	2009	111,000
100,000	2,750	2,750	2010	105,500
<u>\$ 280,000</u>	<u>\$ 15,910</u>	<u>\$ 15,910</u>		<u>\$ 311,820</u>

The above bond issue bears interest at rates ranging from 4.2% to 5.5%. The bond proceeds were used for refunding bonds from the 1988 School Capital Projects and Site Bond Issue.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$6,810,000 Bonds issued November 3, 1998

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 330,000	\$ 129,195	\$ 129,195	2008	\$ 588,390
330,000	122,678	122,677	2009	575,355
330,000	116,078	116,077	2010	562,155
330,000	109,395	109,395	2011	548,790
330,000	102,630	102,630	2012	535,260
330,000	95,783	95,782	2013	521,565
330,000	88,853	88,852	2014	507,705
330,000	81,758	81,757	2015	493,515
330,000	74,580	74,580	2016	479,160
330,000	67,320	67,320	2017	464,640
330,000	59,978	59,977	2018	449,955
330,000	52,553	52,552	2019	435,105
330,000	45,045	45,045	2020	420,090
330,000	37,538	37,537	2021	405,075
330,000	30,030	30,030	2022	390,060
330,000	22,523	22,522	2023	375,045
330,000	15,015	15,015	2024	360,030
330,000	7,508	7,507	2025	345,015
<u>\$ 5,940,000</u>	<u>\$ 1,258,460</u>	<u>\$ 1,258,450</u>		<u>\$ 8,456,910</u>

The above bond issue bears interest at rates ranging from 3.4% to 4.5%. The bond proceeds were used to partially refund bonds from the 1995 school capital projects fund.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$103,746 Limited Obligation (Durant) Bonds issued November 24, 1998

Principal due May 15	Interest due May 15	Debt service requirement for fiscal year June 30	Amount
\$	\$	2008	\$
5,774	1,512	2009	7,286
6,048	1,237	2010	7,285
6,337	949	2011	7,286
36,146	12,804	2012	48,950
6,954	331	2013	7,285
<u>\$ 61,259</u>	<u>\$ 16,833</u>		<u>\$ 78,092</u>

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$14,495,000 Bonds issued November 1, 2004 and partially refunded on September 27, 2006

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 325,000	\$ 144,937	\$ 144,937	2008	\$ 614,874
350,000	140,469	140,469	2009	630,938
375,000	135,219	135,219	2010	645,438
400,000	129,594	129,594	2011	659,188
400,000	123,344	123,344	2012	646,688
425,000	116,844	116,844	2013	658,688
475,000	109,406	109,406	2014	693,812
575,000	100,500	100,500	2015	776,000
625,000	89,000	89,000	2016	803,000
675,000	74,156	74,156	2017	823,312
725,000	58,125	58,125	2018	841,250
750,000	40,000	40,000	2019	830,000
750,000	21,250	21,250	2020	792,500
100,000	2,500	2,500	2021	105,000
<u>\$ 6,950,000</u>	<u>\$ 1,285,344</u>	<u>\$ 1,285,344</u>		<u>\$ 9,520,688</u>

The above bond issue bears interest at rates ranging from 2.75% to 5.00%. The bond proceeds were used for erecting, furnishing and equipping an addition to and partially remodeling, refurnishing and re-equipping existing school buildings, acquiring and installing education technology, constructing and equipping improvements to the stadium and outdoor athletic facilities, erecting, furnishing and equipping a gymnasium and locker rooms as an addition to the high school and developing and improving the sites.

**BATH COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$8,025,000 Bonds issued September 27, 2006

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$	\$ 163,466	\$ 163,465	2008	\$ 326,931
	163,466	163,465	2009	326,931
	163,466	163,465	2010	326,931
105,000	163,466	163,465	2011	431,931
135,000	161,103	161,103	2012	457,206
140,000	158,066	158,065	2013	456,131
105,000	154,916	154,915	2014	414,831
50,000	152,553	152,554	2015	355,107
45,000	151,553	151,553	2016	348,106
40,000	150,653	150,654	2017	341,307
40,000	149,853	149,853	2018	339,706
60,000	149,053	149,054	2019	358,107
60,000	147,853	147,853	2020	355,706
685,000	146,653	146,654	2021	978,307
800,000	132,953	132,953	2022	1,065,906
810,000	116,953	116,954	2023	1,043,907
825,000	100,753	100,753	2024	1,026,506
825,000	84,253	84,253	2025	993,506
825,000	67,753	67,753	2026	960,506
825,000	51,253	51,253	2027	927,506
825,000	34,238	34,237	2028	893,475
825,000	17,119	17,119	2029	859,238
<u>\$ 8,025,000</u>	<u>\$ 2,781,395</u>	<u>\$ 2,781,393</u>		<u>\$ 13,587,788</u>

The above bonds have interest rates from 4.00% to 4.50%. The bond proceeds were used to refinance a portion of the 2004 bond issue and the remaining 1995 bond issue.

	Original issue - defeased		Amount outstanding June 30, 2007
1995 bonds	\$ 395,000	Maturity 2008 - 2015	\$ 390,000
2004 bonds	7,630,000	Maturity 2021 - 2029	7,630,000
	<u>\$ 8,025,000</u>		<u>\$ 8,020,000</u>

BATH COMMUNITY SCHOOLS
SCHEDULE OF BORROWINGS – STATE OF MICHIGAN
JUNE 30, 2007

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Accrued interest	Net increase
1996 and prior	\$ 417,292	\$ 21,649	\$ 438,941
1997	411,863	31,094	442,957
1998	381,236	59,951	441,187
1999	342,437	75,995	418,432
2000	233,810	94,748	328,558
2001	217,000	107,362	324,362
2002	130,484	103,175	233,659
2003	56,168	90,428	146,596
2004		78,443	78,443
2005		84,514	84,514
2006	325,186	130,092	455,278
2007		160,609	160,609
2007 loan repayment	<u>(135,256)</u>	<u>(14,009)</u>	<u>(149,265)</u>
Total	<u><u>\$ 2,380,220</u></u>	<u><u>\$ 1,024,051</u></u>	<u><u>\$ 3,404,271</u></u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Bath Community Schools
Bath, Michigan

October 15, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools' as of and for the year ended June 30, 2007, which collectively comprise Bath Community Schools' basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

To the Board of Education
Bath Community Schools
Bath, Michigan

October 15, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bath Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Bath Community Schools in a separate letter dated October 15, 2007.

Bath Community School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Bath Community School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, others within the entity and the U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costurison & Ellis, P.C.

Certified Public Accountants

Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Criteria:

The District's books and records should be complete and accurately reflect all transactions which occurred during the fiscal year.

Condition

In September 2006, the District issued refunding bonds to refinance approximately \$8,000,000 of prior bond issues. The transaction was not recorded in the District's debt service funds.

Effect

The District's financial records were not complete and journal entries, initiated by the auditor, needed to be recorded. Because the journal entries relate to an isolated and non-reoccurring transaction (bond refunding), the control deficiency is considered a significant deficiency.

Recommendation

The District personnel should be alert for special significant transactions that occur during the year and determine if the financial records need to reflect the transaction. The external auditors can be contacted to assist the District in the determination.

Client Response

We will consider the financial report consequences of future transactions and complete outside consultation when necessary.



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October 15, 2007

To the Board of Education
Bath Community Schools
Bath, Michigan

In planning and performing our audit of the financial statements of Bath Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Bath Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 15, 2007 on the financial statements of Bath Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Segregation of Duties

To improve segregation of duties in the payroll function, we recommend that the Superintendent review the direct deposit file detail and compare it to the bank statement. The detail should also be reviewed periodically for irregular pay amounts and unusual payees. The addition of this procedure to the current review of manual checks and check registers would improve internal controls in this area. It is our understanding the District has already implemented this recommendation.

Password Security

We understand that computer passwords are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. The District may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

Capital Assets

We recommend that the District obtain asset tracking software to aid in the maintenance of detailed asset listings. The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, and provides controls to safeguard the assets. At a minimum, the detailed property records should include the following information:

- Description, asset number, and location.
- Acquisition cost and date of acquisition.
- Assigned life and method of depreciation.
- Depreciation taken on an annual basis with accumulation thereof.

Bond Closure

The 1973 and 1991 debt service funds carry fund balances although the bonds have all fully matured. We recommend that the District contact its attorneys on the appropriate procedures to close out the funds that are no longer operating.

Athletic Fund Receipts

We noted that reconciliations are done by the Athletic Director accounting for all ticket sales and comparing them to the actual cash collections for individual events. In order to increase controls currently in place, we recommend that the reconciliations are compared to the general ledger activity and deposits regularly. All receipts should be transferred to the business office as soon as possible after the event, or other means of collection has occurred. The Business Office should receive a reconciliation with each deposit made in order to have the ability to periodically test the statement. The Athletic Director should also maintain a schedule of deposits given to the Business Office which should be compared to, and agree to, the revenue recorded in the athletic fund ledger as well as deposits on the bank statements. These additional procedures should be completed by both the Business Office as well as the Athletic Department in order to more fully review and track the flow of cash within the District.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

To the Board of Education
Bath Community Schools
Bath, Michigan

7

October 15, 2007

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Bath Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costurison & Ellis, P.C.



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October 15, 2007

To the Finance Committee
Bath Community Schools
Bath, Michigan

We have audited the financial statements of Bath Community Schools for the year ended June 30, 2007, and have issued our report thereon dated October 15, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Bath Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Bath Community School's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bath Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Bath Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was \$314,220 . We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Bath Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). Please refer to the Schedule of Findings and Responses included with other communications referencing a significant deficiency for not recording the 2006 Refunding Bond Transactions.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bath Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Finance Committee
Bath Community Schools
Bath, Michigan

October 15, 2007

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of Bath Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costurison & Ellis, P.C.